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INTERSTATE AIRCRAFT AND ENGINEERING CORPORATION

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Annual Report to
Stockholders

April 30, 1940



INTERSTATE AIRCRAFT AND ENGINEERING CORPORATION
2600 West Imperial Highway • El Segundo, California

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ANNUAL REPORT

Fiscal Year Ending
April 30, 1940

INTERSTATE AIRCRAFT and ENGINEERING CORPORATION
2600 West Imperial Highway, El Segundo, California



OFFICERS

DON P. SMITH	<i>President</i>
W. E. HIRSTENSTEINER	<i>Vice-President</i>
L. B. CAMERON	<i>Secretary and Treasurer</i>



DIRECTORS

DON P. SMITH	W. E. HIRSTENSTEINER
L. B. CAMERON	GEORGE CASTERA
HUGH DARLING	

REPORT OF THE PRESIDENT

El Segundo, California
April 30, 1940

To the Stockholders:

It gives me great pleasure to be able to report to you that the fiscal year from May 1, 1939 to April 30, 1940 was a year of progress and achievement for INTERSTATE AIRCRAFT AND ENGINEERING CORPORATION.

OPERATIONS OF THE YEAR

The operations of your company for the past fiscal year resulted in a net profit of \$25,348.66 after provision for income taxes as compared with a net loss of \$45,088.85 for the previous year.

Net sales for the past year totaled \$337,815.97 as compared with \$172,462.53 for the previous year; an increase of 96 percent. Material and work in process inventories were \$45,623.16 on April 30, 1940, as compared with \$16,022.34 at the end of last year. Payroll in April, 1940 totaled \$33,576.31 for 217 employees as compared with \$10,983.11 for 126 employees in April 1939.

The operations of the company have been devoted exclusively to aircraft and aircraft parts manufacturing, with the majority of the facilities being used in the manufacture and assembly of hydraulic accessories for use on military and commercial airplanes. Manufacture of these modern hydraulic accessories within the past year

INTERSTATE AIRCRAFT AND ENGINEERING CORPORATION

has transformed your company from a machine job-shop to a nationally known aircraft hydraulic accessory manufacturer.

From May 1, 1939 the company has shown a steady and satisfactory increase in sales and profit for each quarter throughout the year with an increasing backlog of orders reaching an all-time high of \$306,034.63.

After a brief existence of three years, the company finds itself firmly entrenched in the field of aircraft parts manufacturers and enjoys as its customers the leading airplane manufacturers in America.

In order to hold and strengthen its place in the aircraft industry and to fulfill its part in responding to the demands being placed upon the aircraft industry, the company during the past year has greatly improved its personnel in all departments and is constantly supplementing its manufacturing with improved units of its own design.

The company has contracted to manufacture and sell vital units designed by engineering firms which find themselves without proper manufacturing facilities to handle these items under our country's enormous defense program. One such contract is with the Dowty

INTERSTATE AIRCRAFT AND ENGINEERING CORPORATION

Equipment Corporation of New York, an affiliate of the Dowty Company in England, which supplies the majority of hydraulic accessories to the British aircraft manufacturers. Outstanding in the Dowty equipment is a Live Line Hydraulic Pump which replaces several items of equipment heretofore necessary. Several of these pumps are now in process and quotation requests are on hand for considerable quantities.

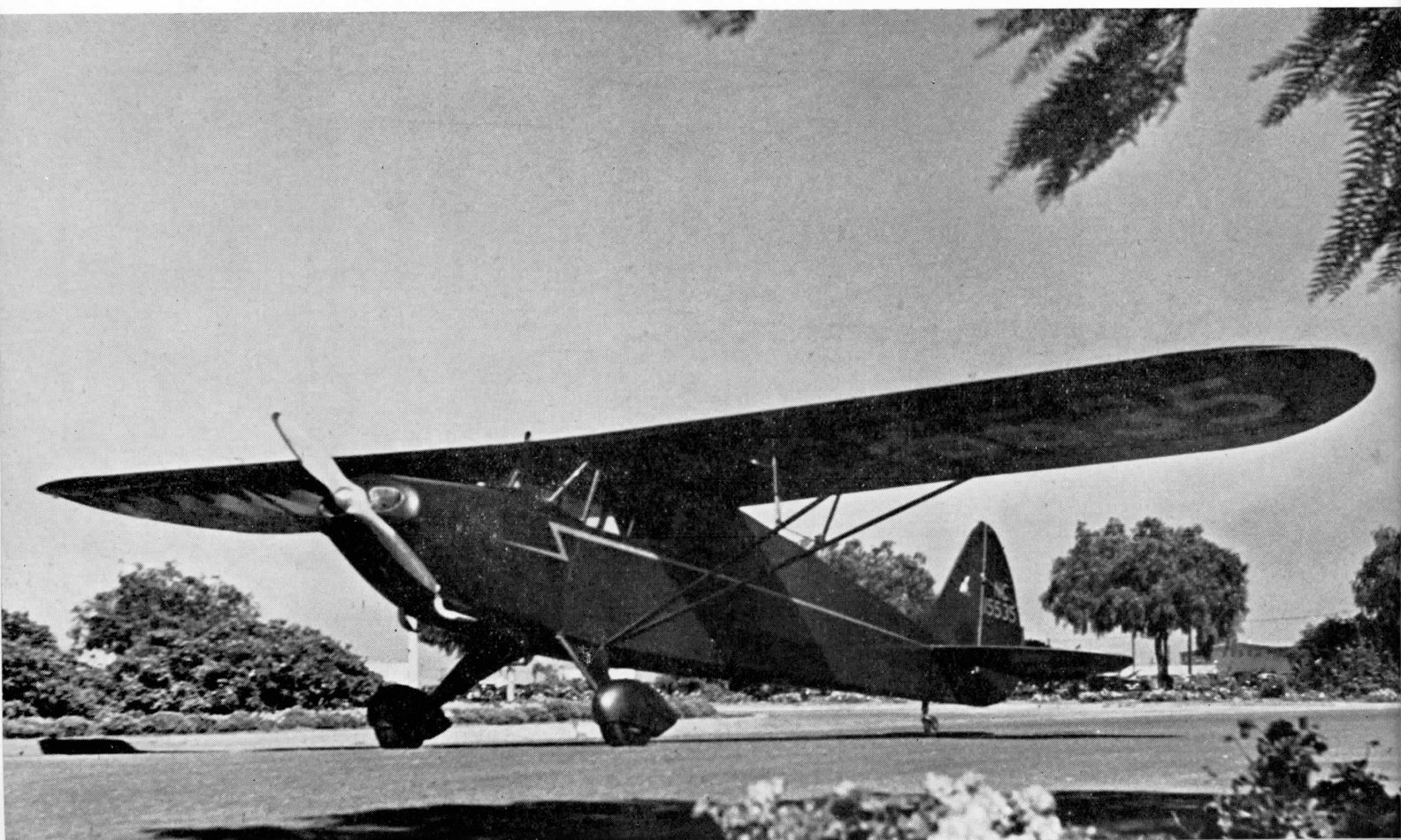


General View of Interstate Machine Shop—One of the Best Equipped Plants in the Aviation Industry

DEVELOPMENT WORK

New incentives and important support was given a year ago by the Civil Aeronautics Authority to the training of civilian airplane pilots. The program then adopted created an immediate demand for a small, safe, economical airplane for standardized primary training of pilots. As all light plane manufacturers are located in the East and Mid-West, the management decided to survey the western sales possibilities, results of which indicated the advisability of producing such an airplane on the West Coast. It was decided by the management to design an airplane to meet the requirements of the C. A. A. Training Program. This was done, and the first airplane is currently passing such tests as are required by the C.A.A. Satisfactory completion of the tests is expected shortly, at which time production will be started in quantities justified by the pilot-training program.

The CADET—Only Light Airplane Manufactured in the West



INTERSTATE AIRCRAFT AND ENGINEERING CORPORATION

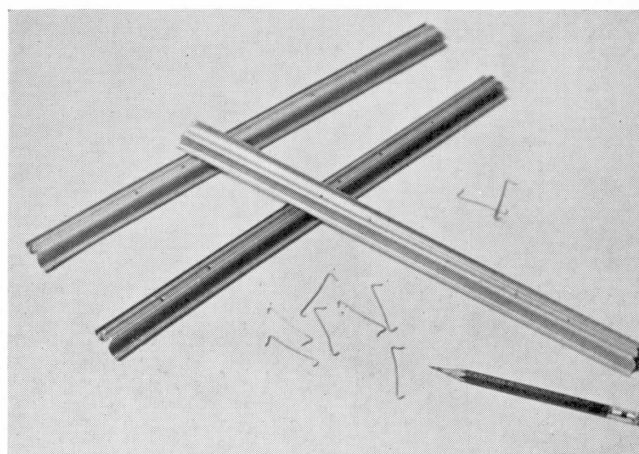
In the design of the airplane our engineers have paid strict attention to maintenance problems of operators with the results that it contains many features that were heretofore not included in the design of light airplanes. One of the outstanding features incorporated in the design is a new method of attaching the fabric on the wings and tail surfaces which not only is a maintenance improvement, but cuts production time for this operation by approximately 80 percent. Patents for this method have been applied for and requests for the use of this method under license have been received from several major companies.

Possibilities for this type of airplane are evidenced in sales increases between 1938 and 1939; there being 1363 such airplanes sold in 1938 as compared to over 3000 sold in 1939.

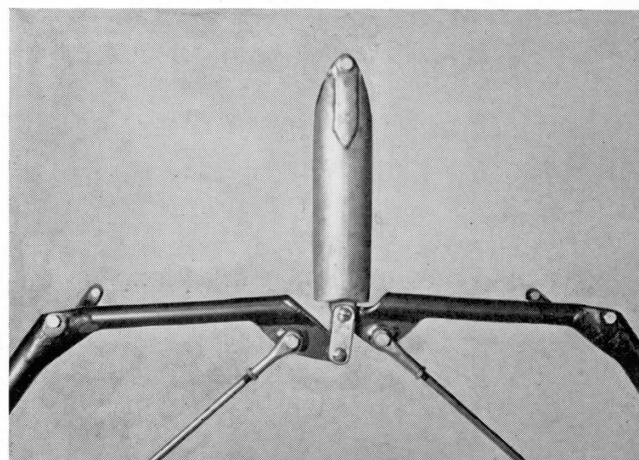
Progress of the light plane field is evidenced by production figures below recently reported by the Civil Aeronautics Authority.



The Interstate Cadet Making a Trial Flight Over Southern California



*Interstate Patented Rib Clips
New Improved Method of Attaching Fabric*



The Single Oleo Unit Shock Absorber System of the Cadet Landing Gear

INTERSTATE AIRCRAFT AND ENGINEERING CORPORATION

BY TYPES

	1939	1938
1-2 Place: Single Engine	3121	1484
3-5 Place: Single Engine	456	258

BY CLASS

Class 1	3042	1363
Class 11S	513	348

BY ENGINE HORSEPOWER

50 H.P. and under	1712	1348
51-70 H.P.	1323	23
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Total under 71 H.P.	3035	1371

Under the training program last year, the State of California had 46 pilot-training schools out of a total of 435 throughout the United States. The number this year will be increased to 52 for California and 550 for the United States, and together they will train over forty thousand pilots as compared to twenty thousand trained last year.

It is the belief of the management that the new airplane will enable the company to offer a real service in assisting the National Defense Program by making available an outstanding low-priced training plane.

INTERSTATE AIRCRAFT AND ENGINEERING CORPORATION

FINANCIAL POSITION

In August 1939 the authorized capital, by vote of the shareholders, was changed from 500,000 shares each of \$1.00 par value to 200,000 shares each of \$5.00 par value, and 50,000 shares of \$5.00 par value stock were exchanged for 500,000 shares of \$1.00 par value stock outstanding. The stated value of capital stock was reduced by \$250,000, which amount was transferred to reduction surplus. In October 1939, 10,000 shares were sold for cash at \$10.00 per share; \$50,000 being credited to stated value and \$50,000 to paid-in surplus. Your Board of Directors authorized the transfer to capital surplus of the earned surplus deficit as of April 30, 1939, and those organization expenses which had been carried as a deferred asset on the balance sheet. Paid-in surplus of \$32,500.00 represents the excess over par value of 10,000 shares of stock sold at \$10.00 per share, or \$50,000 less brokerage commission and expenses of some \$17,500.00. Earned surplus of \$25,348.66 represents the net profit for the fiscal year ended April 30, 1940.

LIABILITIES

Previous to April 22, 1940, a past-due mortgage in the principal sum of \$30,000.00 with interest at 6 percent was carried against the company's real property on which its plant is located. On April 22, 1940 this mortgage was refinanced with a trust deed on the same property, with the interest reduced to 5 percent and with principal payments of \$500.00 per month, commencing in May of 1941, reserving to the company the option of accelerating payment of the entire principal.

A note payable in the amount of \$18,551.23 with interest at 5 percent, payment of which has been conditionally deferred to August 29, 1940, is a carry-over obligation which existed at the time the present management took office.

Contracts payable in the amount of \$8,188.53 represents balances due on new machinery costing \$27,305.12, with all monthly payments up to date.

Accounts Payable and Accrued Liabilities represent month-to-month transactions. All current accounts payable are cleared on the tenth of the month following.

INTERSTATE AIRCRAFT AND ENGINEERING CORPORATION

PROFIT

During the year unusual non-recurring items of expense reduced the annual profit by \$7,897.59; leaving a net of \$25,348.66 after income tax provision. These items consisted of:

Assessments for overtime to employees working on Government contracts between April 1937 and July 1938.

Loss on trade-in of old equipment and settlement of undisclosed liabilities incurred previous to August 1938.

Federal Income Tax for the year amounted to \$3,689.60.

In predicting future prospects and possibilities of the company we cannot overlook the demand for highly specialized aircraft items such as hydraulic accessories, armament accessories, and other precision aircraft items such as those made by INTERSTATE. Many major aircraft companies can increase their plant capacities to handle the general job-shop machine work, but it seems highly improbable that the majors will attempt to expand their plants to a point required to produce all the innumerable special accessory equipment that goes into the completed airplane.

I express my sincere thanks to our Stockholders, my associates on the Board of Directors, and our employees, all of whom have manifested a most co-operative attitude during the past year.

Respectfully submitted,

DON P. SMITH, *President*

INTERSTATE AIRCRAFT AND ENGINEERING CORPORATION

BALANCE

At April

ASSETS

CURRENT ASSETS

Cash on hand and in banks		\$ 36,200.50	
Accounts receivable—trade		49,190.13	
Due from officers and employees		740.10	
Inventories			
Raw material	\$ 3,265.17		
Work in process	42,357.99	45,623.16	
			<u>\$131,753.89</u>

OTHER ASSETS

Investment—4000 shares Phillips Aviation Company (cost)	\$ 5,000.00		
Less: Reserve for impairment	2,000.00		
	<u>\$ 3,000.00</u>		
Accounts receivable—deferred	1,613.17	4,613.17	

FIXED ASSETS (Stated at appraised values as of October 31,
1937, with subsequent additions at cost, less retirements)

Land		\$ 26,117.68	
Buildings	\$ 72,754.14		
Machinery and equipment	275,077.34		
Furniture and fixtures	9,810.50		
Truck	812.96		
Rental and engineering equipment	4,394.19		
Yard and outside	4,300.04		
	<u>\$367,149.17</u>		
Less: Reserve for depreciation	64,019.76	303,129.41	329,247.09

PREPAID AND DEFERRED CHARGES

Prepaid taxes	\$ 808.16		
Prepaid insurance	1,139.48		
Advanced traveling expenses	450.00		
Airplane development expense	34,543.21	36,940.85	
			<u>\$502,555.00</u>

INTERSTATE AIRCRAFT AND ENGINEERING CORPORATION

E S H E E T

30, 1940

LIABILITIES AND CAPITAL

CURRENT LIABILITIES

Notes payable		
Contracts payable		\$ 18,551.23
Accounts payable—trade		8,188.53
Accrued liabilities		14,624.58
Wages and salaries		
Interest	\$ 9,743.99	
Taxes	2,429.10	
Federal income tax	2,888.13	
	3,689.60	18,750.82

PURCHASE OBLIGATION

\$ 60,115.16

Note payable—dated April 22, 1940, secured by trust deed to real property, payable in monthly installments of \$500.00, commencing May 22, 1941—interest rate 5 percent per annum

30,000.00

CAPITAL STOCK

Authorized 200,000 shares, par value \$5.00 per share.

Issued and outstanding 60,000 shares..... 300,000.00
 (5,000 shares of outstanding stock held in escrow, in accordance with instructions of Corporation Commissioner)

SURPLUS

Capital surplus resulting from reduction of capital stock outstanding from 500,000 shares of \$1.00 par value per share, to 50,000 shares of \$5.00 par value per share \$250,000.00

Deduct:

Organization and promotional expenses	\$110,477.57	
Earned surplus deficit at April 30, 1939	84,931.25	195,408.82

\$ 54,591.18

Paid-in Surplus

Excess over par value of 10,000 shares sold at \$10.00 per share ..	\$ 50,000.00	
Less: broker's commission	17,500.00	32,500.00

Earned surplus:

Deficit, at April 30, 1939	\$ 77,564.58	
Adjustment for compensation to officers	7,366.67	

Deficit, at April 30, 1939 charged to capital surplus	\$ 84,931.25	
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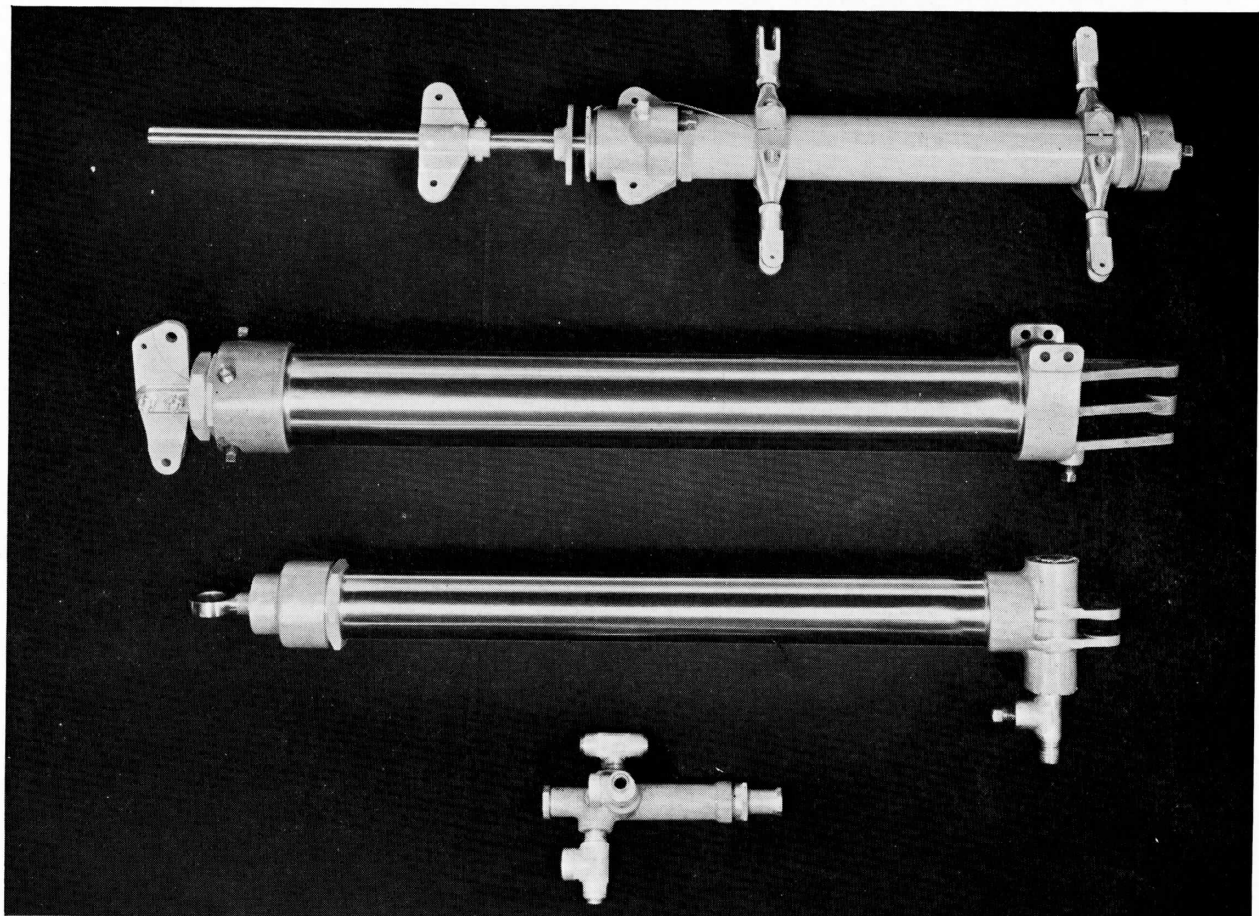
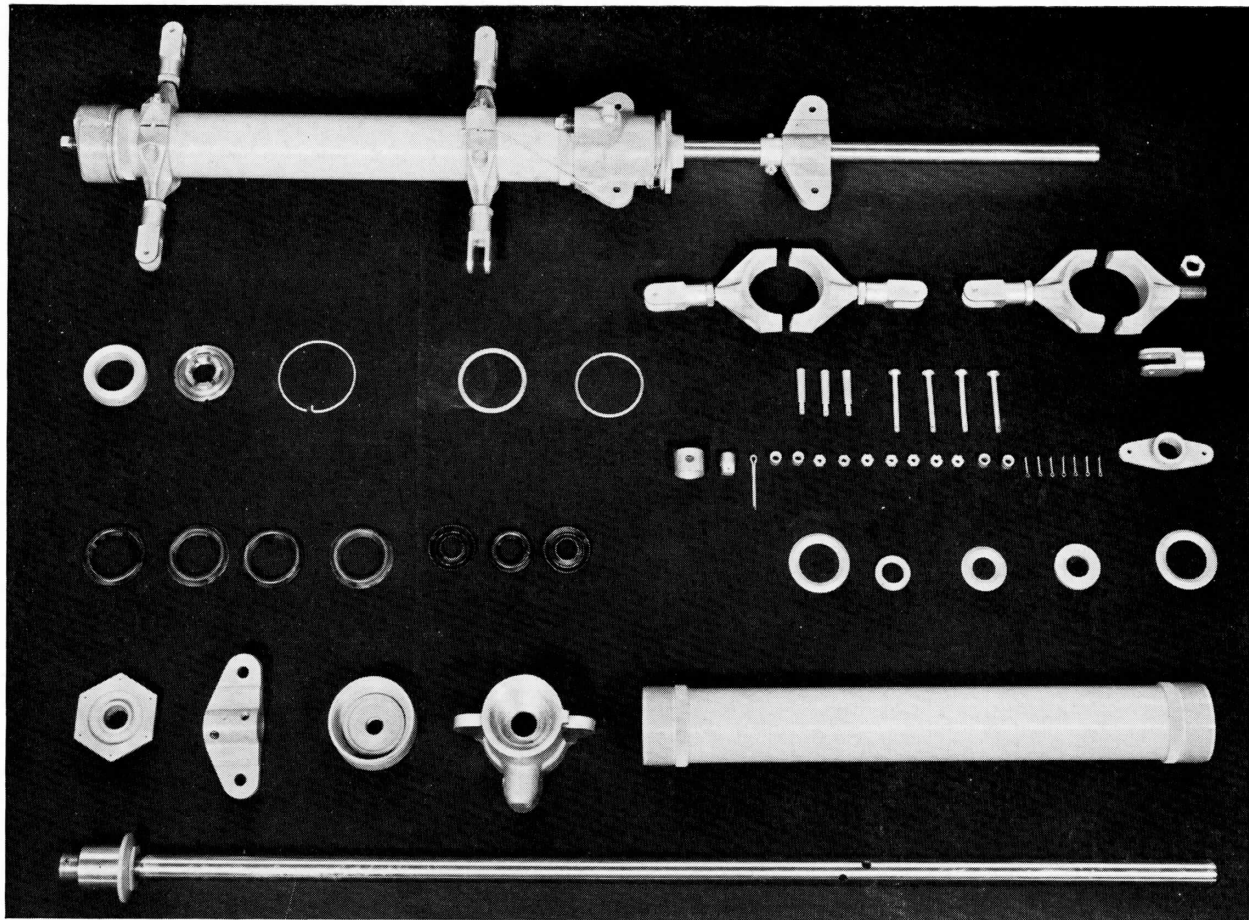
Net profit for the year ended April 30, 1940	25,348.66	112,439.84
		<u>\$502,555.00</u>

INTERSTATE AIRCRAFT AND ENGINEERING CORPORATION

STATEMENT OF PROFIT AND LOSS

For the Year Ended April 30, 1940

SALES			\$337,815.97
COST OF SALES			
Inventory, April 30, 1939	\$ 16,022.34		
Purchases (including outside labor)	28,653.84		
Labor	148,017.33		
			<hr/>
	\$192,693.51		
Less: Inventory, April 30, 1940	45,623.16		
			<hr/>
			\$147,070.35
Manufacturing expenses:			
Shop salaries and wages	\$ 35,224.76		
Tool expense	22,789.42		
Shop supplies	5,374.38		
Repairs and maintenance	8,212.19		
Defective work	5,577.55		
Heat, light and power	5,034.70		
Compensation insurance	3,083.20		
Depreciation	22,161.91		
Social Security taxes	8,137.89		
Insurance	972.19		
Truck expense	721.60		
Miscellaneous	39.45		
			<hr/>
	\$117,329.24		
Less: Amount included in airplane development	6,059.58	111,269.66	258,340.01
			<hr/>
			\$ 79,475.96
GROSS PROFIT			
GENERAL EXPENSES	\$ 35,731.89		
SELLING EXPENSES	5,182.68	40,914.57	
			<hr/>
			\$ 38,561.39
OTHER INCOME			
Rental	\$ 2,175.00		
Scrap sales	937.38		
Discount	489.87		
Interest	106.61		
Miscellaneous	137.75	3,846.61	
			<hr/>
			\$ 42,408.00
OTHER EXPENSE			
Interest	\$ 3,527.07		
Bad debts	85.13		
Discount	310.63		
Loss on disposal of capital assets	4,871.24		
Provision for impairment of investment	2,000.00		
Experimental	2,265.76		
Miscellaneous	309.91	13,369.74	
			<hr/>
			\$ 29,038.26
FEDERAL INCOME TAX			3,689.60
			<hr/>
			\$ 25,348.66



Typical Precision Parts Manufactured for the Aircraft Industry by Interstate

AUDITORS' CERTIFICATE

TO THE BOARD OF DIRECTORS,

Interstate Aircraft and Engineering Corp.

El Segundo, California

We have examined the balance sheet of Interstate Aircraft and Engineering Corporation as of April 30, 1940, and the statement of profit and loss for the year ended that date. In connection therewith, we have reviewed the system of internal control and accounting procedures of the company and, without making a detailed audit of the transactions, have examined or tested accounting records of the company and other supporting evidence, by methods and to the extent we deemed appropriate.

In our opinion, the accompanying balance sheet and related statement of profit and loss present fairly the position of Interstate Aircraft and Engineering Corporation at April 30, 1940, and the results of its operations for the year ended that date, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR YOUNG & COMPANY,
Certified Public Accountants.

July 15, 1940